

**PROCEEDINGS BEFORE MICHAEL D. RILEY
INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA**

IN RE: SAFE INSURANCE COMPANY

Administrative Proceeding No.: 12-AP-FINCON-02008

**AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND
DIRECTING ACTION**

COMES NOW Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2011, of SAFE INSURANCE COMPANY (hereinafter referred to as "Company") based upon the following findings, to wit:

JURISDICTION

1. Michael D. Riley is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. The Company was incorporated on February 21, 1911 and authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted and authorized under Chapter 33, Article 22 of the West Virginia Code.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2007 and ending December 31, 2011, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On June 13, 2012, the examiner filed a REPORT OF FINANCIAL EXAMINATION with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the REPORT OF FINANCIAL EXAMINATION is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about June 18, 2012, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was forwarded to the Company by certified mail, return receipt requested. On June 20, 2012, the Company received a copy of the REPORT OF FINANCIAL EXAMINATION.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the REPORT OF FINANCIAL EXAMINATION within which to make a submission, rebuttal, or objection concerning any matter contained in the REPORT OF FINANCIAL EXAMINATION.

5. By letter dated June 28, 2012, management of the Company indicated that they had reviewed the REPORT OF FINANCIAL EXAMINATION and acknowledged the findings of the examination. A copy of the Company's response letter of June 28, 2012, is attached hereto as Exhibit B. By the letter dated June 28, 2012, the Company concurs with the findings.

CONCLUSIONS OF LAW

W.Va. Code § 33-2-9(j)(3)(A) provides that following a review of the REPORT OF FINANCIAL EXAMINATION, the examination work papers, and any written submission, rebuttal, or objection the Insurance Commissioner shall enter an ORDER adopting the REPORT OF FINANCIAL EXAMINATION as filed or with modifications or corrections.

ORDER

It is therefore AGREED by the Parties and ORDERED the following:

1. It is **ORDERED** that the REPORT OF FINANCIAL EXAMINATION of SAFE INSURANCE COMPANY attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.

2. It is further **ORDERED** that a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION and the adopted REPORT OF FINANCIAL EXAMINATION shall be mailed to SAFE INSURANCE COMPANY by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. It is **ORDERED** that SAFE INSURANCE COMPANY shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted REPORT OF FINANCIAL EXAMINATION and a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION and DIRECTING ACTION, in accordance with W.Va. Code § 33-2-9(j)(4).

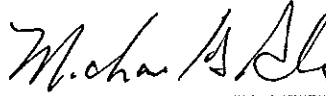
4. It is **ORDERED** that SAFE INSURANCE COMPANY take whatever actions are required to comply with the recommendations set forth in the REPORT OF FINANCIAL EXAMINATION, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.

5. That SAFE INSURANCE COMPANY waives any right to any notice, administrative hearing or appeal therefrom for the actions taken by the Insurance Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action. SAFE INSURANCE COMPANY reserves herein its rights to notice, administrative hearing or appeal for

any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

6. It is finally **ORDERED** that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

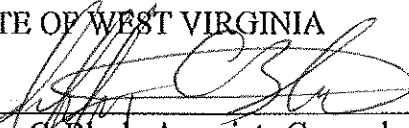
Entered this 30th day of July, 2012.



Michael D Riley
Insurance Commissioner

THE PARTIES DO SO AGREE:

OFFICES OF THE INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA

By: 

Jeffrey C. Black, Associate Counsel
Attorney Supervisor

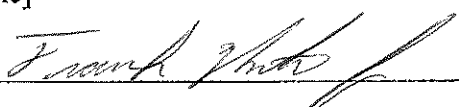
7/27/12

Date

SAFE INSURANCE COMPANY

BY: Frank Norton Jr.

[Print Name]

Signed: 

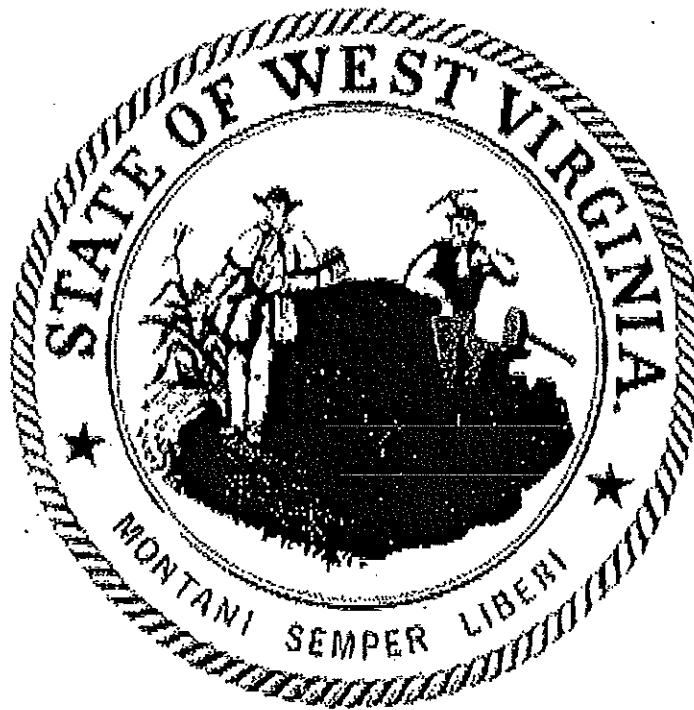
Its: President

Dated: 7/26/12

REPORT OF FINANCIAL EXAMINATION
OF
SAFE INSURANCE COMPANY

As of

December 31, 2011



EXHIBIT

A

**REPORT ON THE STATUTORY FINANCIAL EXAMINATION OF
SAFE INSURANCE COMPANY AS OF DECEMBER 31, 2011**

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June 6, 2012

Honorable Michael D. Riley
West Virginia Insurance Commissioner
1124 Smith Street, 4th Floor
Charleston, West Virginia 25301

Honorable Commissioner:

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner, an examination has been made of the affairs and financial condition of:

Safe Insurance Company
1017 Sixth Avenue
Huntington, West Virginia 25701

hereinafter referred to as the "Company".

The interview phase of the examination was conducted at the Company's home office.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

Pursuant to WV Insurance Code §33-31-8, a full scope examination of the Safe Insurance Company was conducted. The Company is a West Virginia domiciled insurance company, incorporated February 21, 1911 as Farmer's Mutual Fire Insurer. The Company is subject to Article 22 of the West Virginia Insurance Code.

The examination was conducted pursuant to the instructions, procedures and guidelines prescribed by the WVOIC and in accordance with the National Association of Insurance Commissioners that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to and required by West Virginia Code.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

STATUS OF SIGNIFICANT ADVERSE FINDINGS FROM THE PRIOR EXAMINATION

The following is a summary of significant regulatory disclosures and adverse findings contained in the prior examination report performed by the State of West Virginia as of December 31, 2006, which was filed as a public document on August 9, 2007, along with the resulting action taken by the Company.

Comment: The Company is deemed to be a part of a holding company system which includes Inland Mutual Insurance Company and Associated Insurance Services.

Resolution: The Offices of the Insurance Commissioner and the Company entered into a memorandum of understanding that imposed reporting requirements on the Company, but did not result in a finding that the Company was a member of a holding company system.

Comment: The Company's Bylaws do not appear to conform to Article 5, Chapter 33 of the West Virginia Code.

Resolution: The Company amended its Bylaws.

Comment: The Company does not maintain a custodial agreement with depositories responsible for holding the Company securities.

Resolution: The Company entered into an acceptable custodial agreement.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were found as a result of the examination. There are three recommendations that are made and can be found under the section "Summary of Recommendations."

SUBSEQUENT EVENTS

The review of Company transactions and activities subsequent to the examination date revealed no material items.

COMPANY HISTORY

The Company was incorporated on February 21, 1911 as a Farmer's Mutual Fire insurer and is presently so authorized. The Company is subject to the provisions of Article 22 of WV Insurance Code.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws, and the recorded minutes of the Board of Directors' and its committees' meetings were examined for statutory compliance. The Company appears to comply with all reviewed statutory requirements and adheres with the provisions of its Articles of Incorporation and Bylaws.

MANAGEMENT AND CONTROL

The Articles of Incorporation and Bylaws place the ultimate management and control of the Company's affairs with the board of directors. The following is the listing of directors and officers with their principal capacity as of December 31, 2011:

Directors:

Directors	Principal Occupation
Keith H. Adams	VA Ratings Specialist
J. Carter Norton	Vice President
Lewis F. Norton Sr.	Retired Attorney
David M. Justice	Businessman
Benjamin T. Owings Sr.	Retired Insurance Executive
L. Frank Norton Jr.	President, Chairman of the Board
James B. Poindexter III	Military

Officers:

Name	Position
L. Frank Norton Jr.	President
J. Carter Norton	Vice President
David A. Stump	Treasurer
Michael A. Berlin	Secretary

CORPORATE GOVERNANCE

As part of understanding the Company and the underlying corporate governance, the examination team met with six board members and the key officers of the Company.

The following key personnel were interviewed to gain a better understanding of the Company.

Name	Position
L. Frank Norton, Jr.	President
Michael A. Berlin	Secretary
Lewis F. Norton Sr.	Retired Attorney
James B. Poindexter III	Military
David A. Stump	Treasurer
Keith Adams	VA Ratings Specialist

The Company maintains minutes for Board of Directors' meetings and Executive Committee meetings. The Board approves all investment transactions of the Company as required by WV Code 33-8-4.

The Company maintains minutes of the Annual Policyholders' Meetings. Elections of Board members occur at the annual policyholders' meeting and the President of the Company and the Board gives a report on the condition of the Company.

The Company is not at the present time a member of a holding company system and is not affiliated with Inland Mutual Insurance Company or Associated Insurance Services, Inc.; however, it is a related party to Inland Mutual Insurance Company and Associated Insurance Services, Inc. pursuant to the definitions given in Issue Paper No. 25, paragraph 4 and SSAP 25, paragraph 2. As a related party, certain disclosures of transactions must be made in the financial statements of the Company and related party agreements must be filed with the West Virginia Offices of the Insurance Commissioner for prior approval.

It is recommended that the Company properly disclose all related party transactions in their financial statements, and that the Company submit all related party agreements to the West Virginia Offices of the Insurance Commissioner.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains a fidelity bond policy, pursuant to W. Va. Insurance Code §33-31-8. The amount of the bond exceeds the guidance in the NAIC Financial Condition Examiners Handbook.

EMPLOYEE WELFARE AND PENSION PLANS

The Company has no employees. Inland Mutual Insurance Company (Inland) provides all services to the Company pursuant to an expense sharing agreement. Inland provides a 401 (k) profit sharing plan covering all employees. The Company contributes 4% of the employee's regular pay and will match the employee's contribution up to and including 3% of their regular pay. The Company's employees are not subject to vesting. Additional benefits provided to employees include medical, life and disability insurance as well as vacation and sick leave.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business as a Farmer's Mutual Fire Insurer under the provisions of Article 22 of the WV Insurance Code. The Company is licensed only in the State of West Virginia. The Company writes full coverage mobile home, tenant, and owner occupied dwellings, low value fire and vacant dwelling fire insurance. The dwelling portion of policies is written on an actual cash value basis rather than a replacement cost basis. Only non-assessable policies are issued.

The Company markets all of its business through independent agents and one general agent.

The Company's certificate of authority, granted by the West Virginia Insurance Commissioner, authorizes it to transact the business of insurance as defined in the WV Code Chapter 33, Article 22. This Article in Section 8 (a) provides that a Farm Mutual may issue policies of insurance on property. In addition, Section 8 (c) permits a Farm Mutual to write certain type of liability policies subject to the Commissioner's approval. The Commissioner granted the Company an extension of its license pursuant to WV Code 33-2-8(c) on October 3, 2006. Included in that extension of authority was the broader investment authority as allowed pursuant to WV code 33-22-11(c).

GROWTH OF COMPANY

The growth of the Company since the last financial examination is reflected in the following schedule. The stated amounts were derived from the Company's filed annual statements.

Year	Net Admitted Assets	Policyholder Surplus	Net Premium Written	Net Income
2007	6,443,715	4,126,763	2,925,070	583,620
2008	6,643,461	4,245,639	2,929,930	543,304
2009	7,242,875	4,819,209	2,869,205	444,929
2010	7,728,115	5,377,999	2,886,009	440,387
2011	8,252,527	5,963,502	2,867,050	531,742

The underwriting results of the Company since the last financial examination are reflected in the following schedule. The stated amounts were derived from the Company's filed annual statements.

Year	Premiums Earned	Losses Incurred	Expenses Incurred	Combined Ratio
2007	2,926,739	753,771	1,577,723	80%
2008	2,954,404	762,893	1,667,451	83%
2009	2,875,168	691,775	1,613,225	80%
2010	2,869,417	915,660	1,587,963	87%
2011	2,866,842	711,630	1,614,700	81%

REINSURANCE

CEDED

The Company maintains an excess of loss reinsurance agreement with Swiss Reinsurance America Corporation. The reinsurer is rated as A+ by A.M. Best as of December 31,

2011 and is an authorized insurer in West Virginia. The agreement provides multi-line excess of loss coverage for property in the amount of \$165,000 in excess of \$35,000 each risk not to exceed \$330,000 each occurrence. For liability, the treaty provides \$90,000 in excess of \$35,000 with a cap of \$300,000 each occurrence.

The Company also maintains a catastrophe treaty with Shelter Mutual Insurance Company. The reinsurer is rated as A by A. M. Best as of December 31, 2011 and is an authorized insurer in West Virginia. The agreement provides property catastrophe coverage in the amount of \$1,500,000 in excess of \$500,000 any one occurrence.

The Company has an aggregate excess of loss treaty with Inland Mutual Insurance Company. This treaty provides reinsurance to Safe for loss and loss adjustment expenses of Safe in excess of 70% of Safe's net earned premium, capped at \$300,000 per quarter and \$850,000 per year. This treaty does not meet the transfer of risk requirements to be treated as reinsurance pursuant to SSAP No. 62R. The Company has failed to properly account for the treaty under SSAP No. 62R and SSAP NO. 75.

Inland and Safe are not deemed to be affiliates, however, they are related parties. The Company has not filed the treaty for approval with the West Virginia Offices of the Insurance Commissioner. The treaty should be filed for approval with the West Virginia Offices of the Insurance Commissioner.

It is recommended that the Company properly account for reinsurance in accordance with SSAP 62R and SSAP 75.

It is recommended that the Company file the Inland-Safe treaty for approval with the West Virginia Offices of the Insurance Commissioner.

ACCOUNTS AND RECORDS

The Company maintains its books and records at its home Office in Huntington, West Virginia. In general, the Company's accounting and corporate records were maintained in a manner in which the financial condition was readily verifiable. The Company utilizes Microsoft software and Quickbooks for basic accounting, accounts payable and general ledger postings.

The Company's accounting procedures, practices, and account records were reviewed and tested to the extent necessary. The trial balance prepared from the Company's general ledger and workpapers for the year ended December 31, 2011 agreed to the Annual Statement.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the WVOIC and by the National Association of Insurance Commissioners as of December 31, 2011. No statutory examination adjustments were made.

STATEMENT OF FINANCIAL POSITION – ASSETS

<u>Assets</u>	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Per Statutory Examination</u>
Bonds <i>(Note 1)</i>	\$ 3,639,775	\$ -	\$ 3,639,775
Preferred stock	622,706	-	622,706
Common stock	1,716,899	-	1,716,899
Cash \$1,387,171, cash equivalents \$680,806 and short-term investments \$0	2,067,977	-	2,067,977
Investment income due and accrued	48,280	-	48,280
Deferred premiums	31,860	-	31,860
Amounts recoverable from reinsurers	5,000	-	5,000
Net deferred tax asset	120,030	-	120,030
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 8,252,527</u>	<u>-</u>	<u>\$ 8,252,527</u>

STATEMENT OF FINANCIAL POSITION -- LIABILITIES, CAPITAL AND SURPLUS

	Per Annual Statement	Statutory Examination Adjustments	Per Statutory Examination
<u>Liabilities</u>			
Losses	\$ 749,953	\$ -	\$ 749,953
Losses adjustment expenses	168,180	-	168,180
Commissions payable	52,026	-	52,026
Other expenses	136,854	-	136,854
Current federal income tax	43,102	-	43,102
Unearned premiums	1,021,501	-	1,021,501
Advance premium	37,289	-	37,289
Ceded reinsurance premium payable	48,514	-	48,514
Aggregate write-ins for liabilities	31,606	-	31,606
Total Liabilities	<u>2,289,025</u>	<u>-</u>	<u>2,289,025</u>
<u>Surplus</u>			
Unassigned funds (surplus)	<u>5,963,502</u>	<u>-</u>	<u>5,963,502</u>
Total Capital and Surplus	5,963,502	-	5,963,502
Total Liabilities and Surplus	<u>\$ 8,252,527</u>	<u>\$ -</u>	<u>\$ 8,252,527</u>

STATEMENT OF INCOME

	Per Annual Statement	Statutory Examination Adjustments	Per Statutory Examination
<u>Underwriting Income</u>			
Premiums earned	\$ 2,866,842	\$ -	\$ 2,866,842
Losses incurred	711,630	-	711,630
Losses adjustment expenses incurred	452,848	-	452,848
Other underwriting expenses incurred	1,161,852	-	1,161,852
Total underwriting deductions	<u>2,326,330</u>	<u>-</u>	<u>2,326,330</u>
Net underwriting gain	540,512	-	540,512
<u>Investment Income</u>			
Net investment income earned	230,914	-	230,914
Net realized capital gains	8,768	-	8,768
Net investment gain	<u>239,682</u>	<u>-</u>	<u>239,682</u>
<u>Other Income</u>			
Net gain (loss) from agents' or premium balances charged off	-	-	-
Finance and service charges not included in premiums	-	-	-
Aggregate write-ins for miscellaneous income	-	-	-
Total Other Income	-	-	-
Net income before dividends to policyholders and federal income taxes	780,194	-	780,194
Federal income taxes incurred	<u>248,452</u>	<u>-</u>	<u>248,452</u>
Net income	<u>\$ 531,742</u>	<u>-</u>	<u>\$ 531,742</u>

RECONCILIATION OF CAPITAL & SURPLUS

	2011	2010	2009	2008	2007
Capital and surplus as of December 31, prior year	<u>\$ 5,377,999</u>	<u>\$ 4,819,209</u>	<u>\$ 4,245,639</u>	<u>\$ 4,126,763</u>	<u>\$ 3,589,749</u>
Net income	531,742	440,387	444,929	543,304	583,620
Net transfers (to) Protected Cell accounts	0	0	0	0	0
Change in net unrealized capital gains and (losses) less capital gains tax of \$ 0	7,486	107,360	277,736	(425,866)	(24,636)
Change in net unrealized foreign exchange capital gain (loss)	0	0	0	0	0
Change in net deferred income tax	12,330	(87,857)	(54,679)	148,122	1,688
Change in nonadmitted assets	(1,055)	98,900	(94,417)	(146,726)	(23,657)
Aggregate write-ins for gains and losses in surplus	<u>35,000</u>	<u>0</u>	<u>0</u>	<u>42</u>	<u>0</u>
Net change in capital and surplus for the year	585,503	558,790	573,570	118,876	537,015
Capital and surplus as for current year:	<u>\$ 5,963,502</u>	<u>\$ 5,377,999</u>	<u>\$ 4,819,209</u>	<u>\$ 4,245,639</u>	<u>\$ 4,126,764</u>

SUMMARY OF RECOMMENDATIONS

- It is recommended that the Company properly disclose all related party transactions in their financial statements, and that the Company submit all related party agreements to the West Virginia Offices of the Insurance Commissioner.
- It is recommended that the Company properly account for reinsurance in accordance with SSAP No. 62R and SSAP No. 75.
- It is recommended that the Company file the Inland-Safe reinsurance treaty for approval with the West Virginia Offices of the Insurance Commissioner.

EXAMINER ACKNOWLEDGEMENTS AND SIGNATURE

The examiner in charge would like to acknowledge that the Company's personnel were cooperative and helpful during the examination process.

EXAMINERS AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Illinois
County of Sangamon

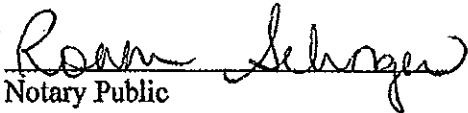
Norman C. Koefoed, being duly sworn, states as follows:

1. I have authority to represent the West Virginia Offices of the Insurance Commissioner in the examination of Safe Insurance Company.
2. The West Virginia Offices of the Insurance Commissioner are accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report and the examination of Safe Insurance Company was performed per instruction of the Chief Examiner and in a manner consistent with the standards and procedures required by the West Virginia Offices of the Insurance Commissioner.

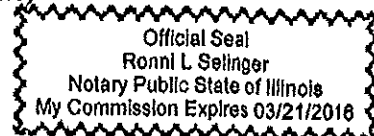
That affiant says nothing further


Norman C. Koefoed, CFE

Subscribed and sworn before me by Norman Koefoed on this
13 day of June 2012.

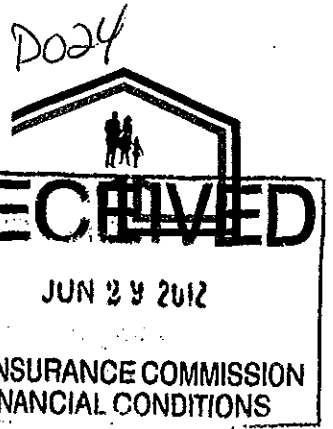

Notary Public

My commission expires 3-21-16 (Date)



SAFE

INSURANCE COMPANY



June 28, 2012

Michael D. Riley, Insurance Commissioner
State of West Virginia
Offices of the Insurance Commissioner
P. O. Box 50540
Charleston, WV 25305-0540

CERTIFIED MAIL
7106 3901 9848 4484 5502

Re: Safe Insurance Company
Report of Examination as of December 31, 2011
NAIC # 15415 WV File # D024

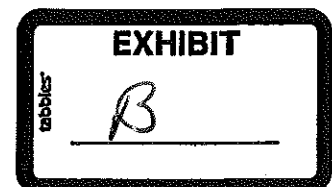
Dear Commissioner Riley,

This will acknowledge receipt of the examination report referenced above. We would like to thank all of your staff who participated, as well as the contract examiner, Norman Koefoed, for their cooperation and open dialogue.

Overall, we believe the West Virginia Insurance Department and our policyholder members should be pleased with the results of the financial examination, which clearly supports our strong balance sheet and internal controls.

The examination revealed no significant findings and below is our response to the recommendations outlined on page 12.

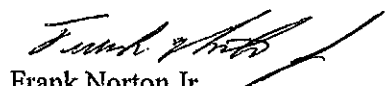
- We will properly disclose all "related party" transactions in the quarterly and annual financial statements in the notes to the financial statement and submit all "related party" agreements to the West Virginia Offices of the Insurance Commissioner. (Note) All related party agreements have previously been submitted annually and are in the possession of the West Virginia Offices of the Insurance Commissioner.
- We will properly account for reinsurance in accordance with SSAP 62R and SSAP No. 75.
- The Inland-Safe Treaty has been approved by the West Virginia Offices of the Insurance Commissioner (See attached). As a result of the examination, we are re-evaluating the Treaty and Inland Mutual advised they are in the process of reviewing the contract language and will be submitting a revised treaty to Safe for consideration and/or negotiation. In the event an agreement is reached, the treaty will be submitted for approval.



It is our understanding the M.O.U. will "terminate upon acceptance of the statutory financial exam" for the period ended December 31, 2011. Please advise if this is incorrect.

In the event you have any questions, please don't hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Norton Jr.", with a stylized flourish extending to the right.

Frank Norton Jr.

President

1-800-642-3541 Ext. 15